

ENHANCING A CULTURE OF ENTREPRENEURSHIP IN INDIANA

INVEST Indiana Initiative



“A marketplace conducive to high-performance entrepreneurial companies requires a host of resources, including a full range of equity and debt financing, quality business plan assistance, capable management, sound professional advice and access to technical support.”

Accelerating Growth: Indiana's Strategic Economic Development Plan, 2006



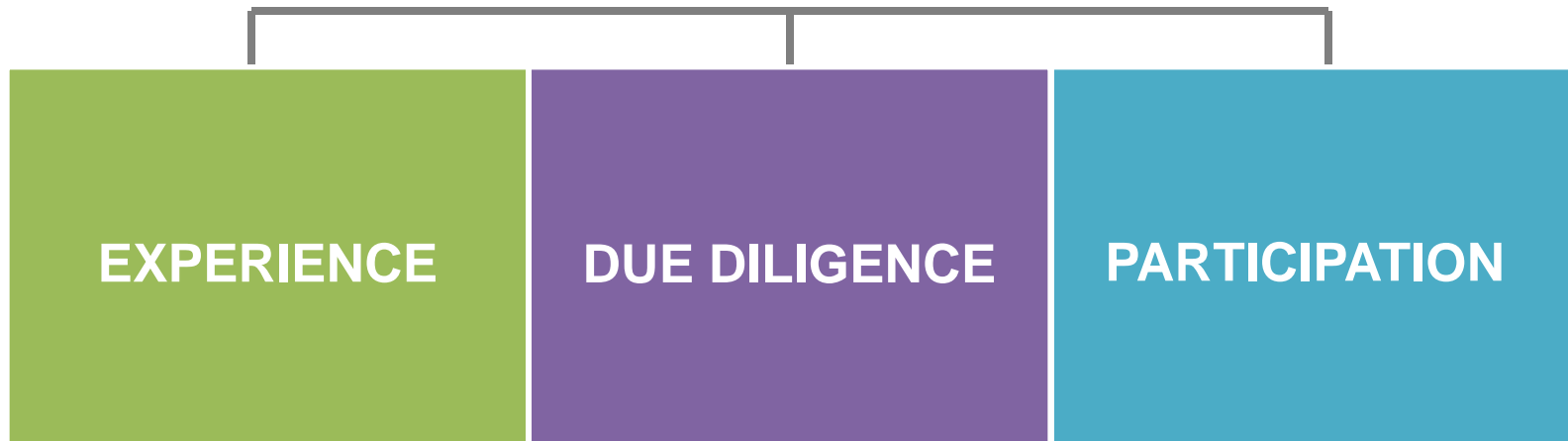
ENHANCING ENTREPRENEURSHIP

- ▶ Successful ventures require investment capital, technical assistance, and the timely engagement of management talents
- ▶ Indiana must provide these key resources to our most promising entrepreneurs to create sustainable high-paying jobs here verses on the coasts



COMPONENTS OF SUCCESSFUL INVESTMENTS

Studies show that successful returns are more probable when an investment incorporates 3 key factors:



COMPONENTS OF SUCCESSFUL INVESTMENTS

EXPERIENCE: an investor's expertise in the industry of the venture in which they invest.

- ▶ High industry experience (14 yrs or more) = 3.7x return on investment (ROI)
- ▶ Low industry experience = 1.3x ROI

OBSTACLE

Indiana lacks a statewide investor network to match new ventures with industry investors to increase the probability of success.

Returns of Angel Investors in Groups, a 2007 report by
Kauffman Foundation and Angel Capital Education Foundation



COMPONENTS OF SUCCESSFUL INVESTMENTS

DUE DILIGENCE: 40+ hours should be the target for maximum return on investment

- ▶ High level of due diligence (more than 20 hrs.)=5.9xROI; more than 40 hrs.=7.1xROI
- ▶ Low level of due diligence (20 or fewer hrs.)=1.1xROI

OBSTACLE

Quality due diligence is costly and discourages the consideration of early-stage investments.

Returns of Angel Investors in Groups, a 2007 report by
Kauffman Foundation and Angel Capital Education Foundation



COMPONENTS OF SUCCESSFUL INVESTMENTS

PARTICIPATION: investors that interacted with their portfolio companies at least 2 times per month by mentoring, coaching, providing leads, and/or monitoring performance experienced greater returns.

- ▶ High participation (1-2x/mo.)=3.7xROI
- ▶ Low participation (1-2x/yr.)=1.36xROI

OBSTACLE

No structured assistance program is available for existing 21Fund companies

Returns of Angel Investors in Groups, a 2007 report by
Kauffman Foundation and Angel Capital Education Foundation



2006 STRATEGIC INITIATIVES

To address these obstacles, IEDC's 2006 Strategic Plan outline several key initiatives.

- ▶ Develop rigorous technical and business due diligence process and provide investment capital through the 21 Fund (Initiative 7) –**Completed**
- ▶ Establish a robust Entrepreneurs-in-Residence Program (Initiative 3) –**Remaining**
- ▶ Create a network to deploy due diligence and entrepreneurial assistance to encourage private sector investment in high-growth Indiana ventures (Initiative 6) –**Remaining**
- ▶ Focus implementation to meet regional needs (Page 32) –**Remaining**



PRIVATE MODELS FOR PRIVATE ENGAGEMENT

NATIONAL MODELS

IEDC evaluated proven models that encourage private sector engagement:

- ▶ JumpStart, Inc. (Northeast Ohio)
- ▶ Innovation Works (Pittsburgh, PA)
- ▶ i2E, Inc. (State of Oklahoma)

These models highly leverage public funding, develop extensive private sector investor networks, and attract significant non-state operational support as nonprofits.

Existing Approach

Currently, no structure exists to attract meaningful non-state support and lasting relationships necessary to build a successful network.

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NEW RESOURCES FOR INDIANA ENTREPRENEURS

New resources likely to be available for Indiana high-growth ventures:

- ▶ State Small Business Credit Initiative (est. \$25 million)
- ▶ Proposed SBA and EDA Initiatives (est. \$5 million)
- ▶ Startup America Foundation Network (est. \$5 million)
- ▶ Jumpstart is identifying additional resources to support regional activities in Northern Indiana

Proposed 21 Fund Budget Appropriation provides necessary match funding (\$31 million)

There is a need to qualify for and coordinate these resources for the benefit of Indiana's entrepreneurial community.



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ENTREPRENEURSHIP COMMITTEE ACTIVITIES

- ▶ **September 2009** EC considered need for additional entrepreneurial assistance for 21 Fund companies
- ▶ **March 2010** EC received information on potential strategies
- ▶ **June 2010** EC approved partnership with Jumpstart Inc., Knight Foundation, and Surdna Foundation for Northern Indiana planning
- ▶ **September 2010** Board received BSU recommendations
- ▶ **September 2010** EC considered strategies to address obstacles including a partnership with an existing nonprofit
- ▶ **October 2010** Interim Study Committee on Economic Development considered national models for enhancing entrepreneurship
- ▶ **December 2010** EC approved parameters for potential partnership with a new nonprofit consistent with the national models.
- ▶ **TODAY** EC recommends the INVEST Indiana initiative—the development of statewide entrepreneur and investor network to provide new resources to entrepreneurs and investors in partnership with Elevate Ventures, Inc.



“Post-investment support of entrepreneurial activities should be considered a prime area of Fund focus.”

Ball State University Center for Business and Economic Research: 2010, *Comprehensive Examination of the Performance of 21st Century Research and Technology Funds*, page 17



INVEST INDIANA INITIATIVE

The development of a state-wide entrepreneurial and investor network and a coordinated 21 Fund investment strategy to maximize private sector participation and attract new resources for Indiana entrepreneurs.

Investment Matched Strategy

Networked Angel Investors

Venture Development

Experienced Entrepreneurs-in-Residence Program

SBIR/STTR Assistance

Technical and Business Due Diligence Services

*This network will be developed and managed by
Elevate Ventures, Inc.*



NEW SERVICES DELIVERED BY ELEVATE VENTURES

- ▶ Experience: Develop an investor network to match Indiana investment opportunities with experienced investors
- ▶ Due Diligence: Provide the 21 Fund's due diligence process to early-stage investors
- ▶ Participation: Develop an Entrepreneur-In-Residence program to provide entrepreneurial assistance to 21 Fund companies and to be a resource for other network activities
- ▶ Funding: Develop relationships with public and private investment partners to attract matching and follow-on funding
- ▶ Regional Entrepreneurship: Cultivate and coordinate additional regional entrepreneurial activities



21 FUND IMPACT

What **does not** change?

- ▶ 21 Fund process
 - Application procedures
 - Entrepreneurship committee approval
 - State Budget Committee review
 - Payment and disbursement of funds
 - Compliance process
- ▶ 21 Fund due diligence and management expectations

What changes?

- ▶ Access to matching capital for investments through new network
- ▶ Ability to attract new resources to support 21 Fund activities
- ▶ Due diligence services provided primarily through Elevate
- ▶ Additional services for 21 Fund companies through Elevate



ELEVATE VENTURES:

Providing Critical Resources to Young Companies

- ▶ Elevate Ventures, Inc. is a non-profit focused on connecting young companies with management expertise vital to their success
- ▶ Patterned after similar successful programs in Oklahoma, Pittsburgh, and Cleveland, the 21st Century Fund will work in concert with Elevate Ventures to equip entrepreneurs for growth
- ▶ A 7-member board of directors will provide support to Elevate Ventures



ELEVATE VENTURES

ELEVATE BOARD

- ▶ Howard W. Bates
Former President Kratos Defense and Security Solutions (Indianapolis)
- ▶ Mark D. Becker
Executive Director, Northeast Indiana Fund (Fort Wayne)
- ▶ Jim Jay
President & CEO, TechPoint (Indianapolis)
- ▶ Glenn E. Killoren
Partner, Barnes and Thornburg LLP & Irish Angels member (S. Bend/Elkhart)
- ▶ John A. Schneider,
Ph.D. – Assistant Vice President for Industry Research,
Purdue University (West Lafayette)
- ▶ (Open)
- ▶ (Open)



ELEVATE VENTURES

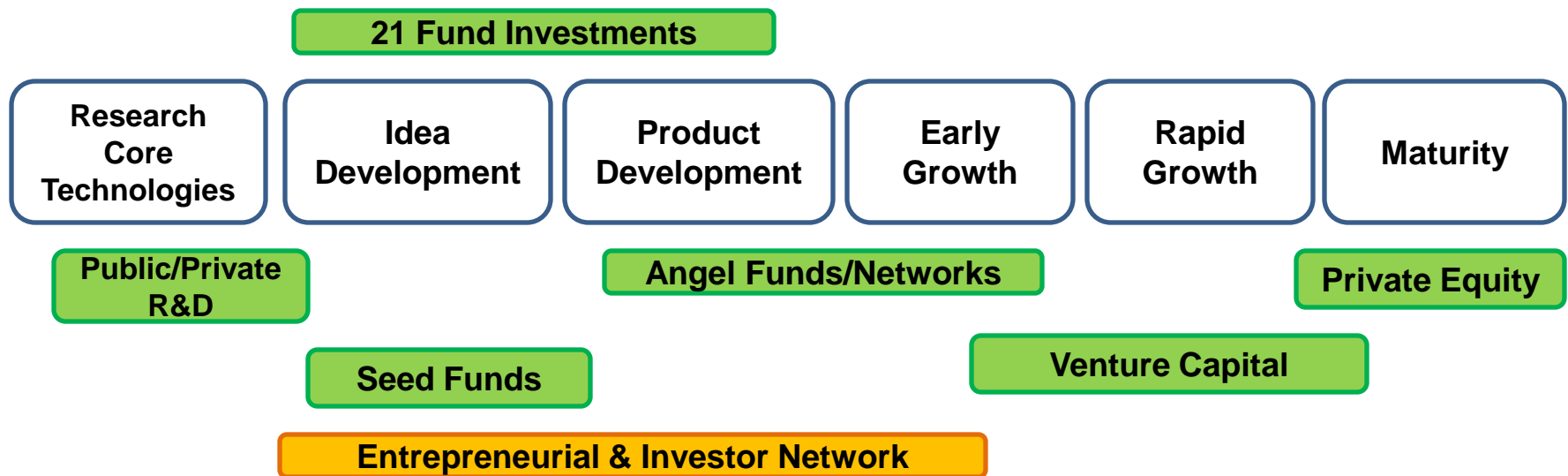
IEDC–Elevate Ventures Contractual Relationship

IEDC retains:

- ▶ Control over all investment decisions
- ▶ Approving authority over all operating and governance procedures affecting 21 Fund activities
- ▶ Contractual termination rights with or without cause
- ▶ Oversight ability through audit and inspection rights and copies of independent audits
- ▶ Select new personnel if work product or relationship becomes unsatisfactory



PROPOSED VENTURE DEVELOPMENT CONTINUUM



CRITICAL IMPROVEMENTS

- ▶ Venture development experts accelerate the advancement of ideas along the business development life cycle
- ▶ Reduce risk of critical angel and seed funding to attract private sector participation
- ▶ Access to vital state and public funding earmarked for successful early stage innovation
- ▶ Bridge the gap between seed funding and venture capital funding

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ENHANCING A CULTURE OF ENTREPRENEURSHIP IN INDIANA

INVEST Indiana Initiative



State Small Business Credit Initiative

State Small Business Credit Initiative (SSBCI)

- In September Congress enacted the Small Business Jobs Act of 2010, which included the SSBCI
- The legislation provides \$1.5 billion in cash to states to support programs that enhance access to capital for small businesses
 - Indiana's share is approximately \$34 million
- The guidelines for using the funds primarily rely on each state's ability to demonstrate to the U.S. Treasury that the federal funds will contribute to an overall leverage ratio of 10:1, when combined with state and other small business lending programs
- The IEDC has already provided notice of intent to the U.S. Treasury that it will seek the funding. Applications are due by May of 2011.

Proposed SSBCI Allocations

\$ 1.5MM Capital Access Program

\$ 6.0MM High-growth Lending Initiative

\$ 7.0MM Seed Fund Formation Initiative

\$ 8.0MM Angel Network Formation Initiative

\$11.8MM 21 Fund Enhancement

\$34.3MM Total Federal Allocation

\$343MM Total Anticipated Private Leverage

Capital Access Program

IEDC will fund the IEDC's existing capital access program consistent with existing policies, procedures and Indiana Code § 5-28-29

Total Allocation:	\$1,500,000
Projected Leverage:	\$33,000,000

High Growth Lending Initiative

IEDC will award funding to successful applicants for lenders that demonstrate the ability to provide or attract new lending to creditworthy, high-growth borrowers who otherwise would not be able to secure financing in Indiana. Applications of lenders will be submitted pursuant to a RFP, and applicants must demonstrate an ability to significantly leverage any requested funding. All awards must be approved by the IEDC Board.

Total Allocation:	\$6,000,000
Projected Leverage:	\$200,000,000

Seed Fund Formation Initiative

IEDC will provide an investment match with a minimum 1:1 ratio for qualified new seed or early-stage angel funds established prior to June 30, 2012. Applicants will need to apply through an RFP process, and all awards must be approved by the IEDC Board.

Total Allocation:	\$7,000,000
Max. Award:	\$3,000,000
Projected Leverage:	\$10,500,000

Angel Network Formation Initiative

IEDC will develop a strategy to provide an investment match with a minimum 1:1 ratio for qualified, early-stage angel investments made in early-stage, high-growth companies after June 30, 2011, with a preference being made for underserved areas or populations. To apply, angel groups will need to enroll in the state-wide angel network, share any independent due diligence, and provide ongoing assistance to the company. Criteria approved by IEDC Board.

Total Allocation:	\$8,000,000
Max. Award:	\$125,000
Projected Leverage:	\$24,000,000

21 Fund Enhancement

IEDC will deploy federal dollars on a matching basis with 21 Fund investments approved by the IEDC Board. These additional dollars will enable the 21 Fund to invest in more “gazelle” companies, and with the implementation of the venture development model, the 21 Fund should be able to significantly assist more companies and improve its leverage ratio.

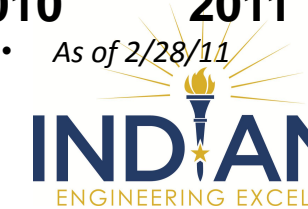
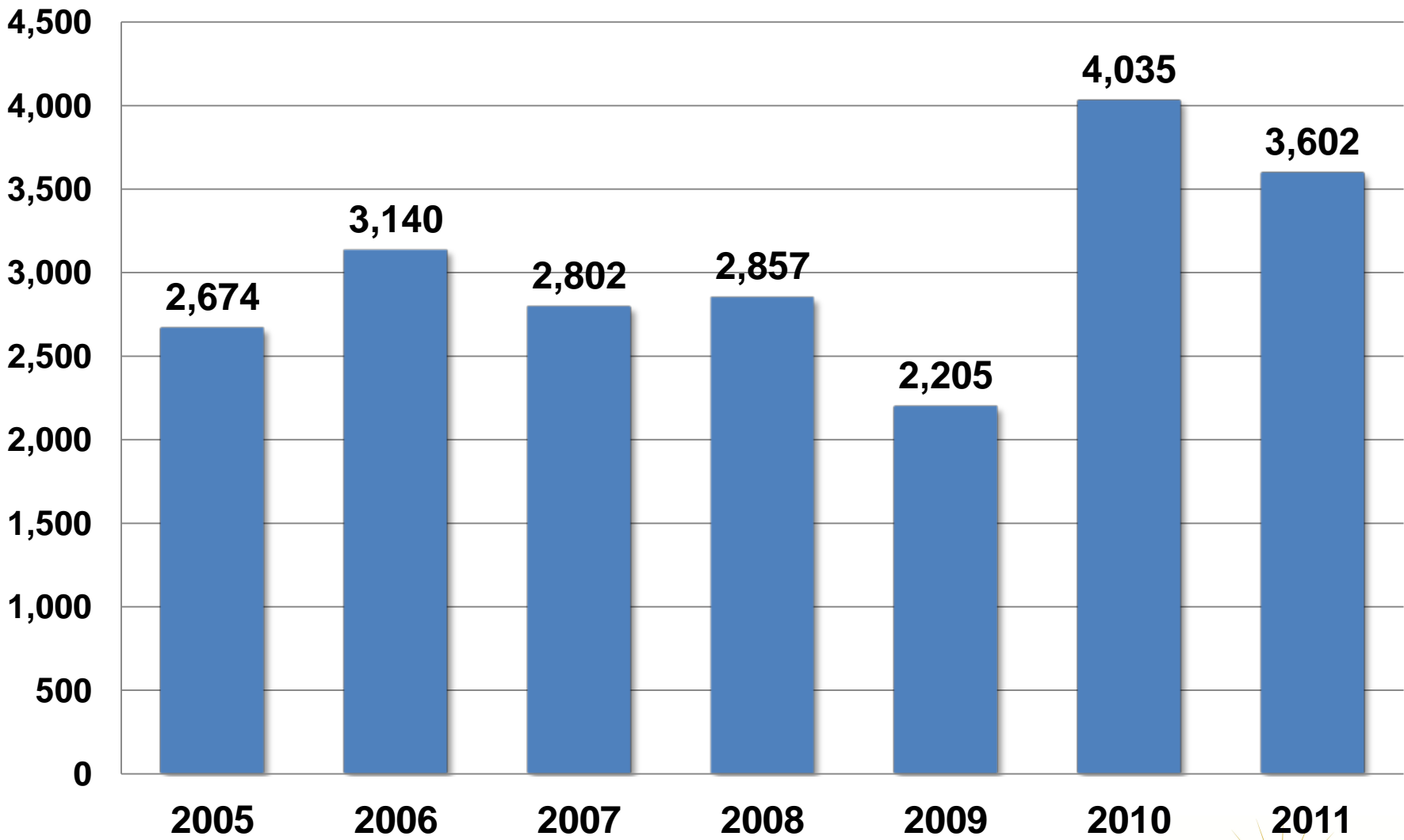
Total Allocation:	\$10,500,000
Projected Leverage:	\$81,000,000



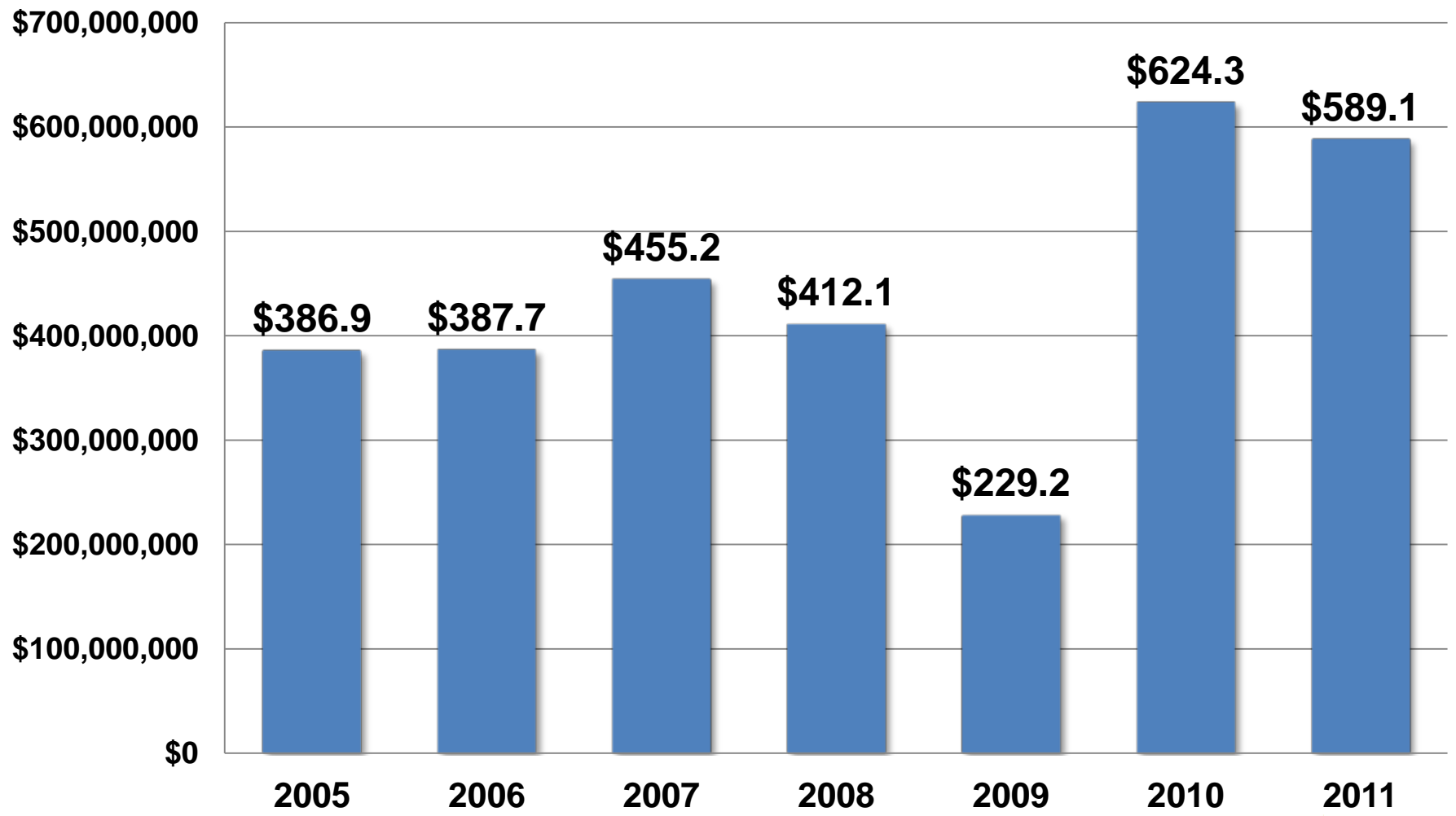
“Government does not create jobs; it only creates the conditions that make jobs more or less likely.”

Governor Mitchell E. Daniels, Jr.
State of the State Address, January 18, 2005

Private Sector Job Projections Year-to-Date

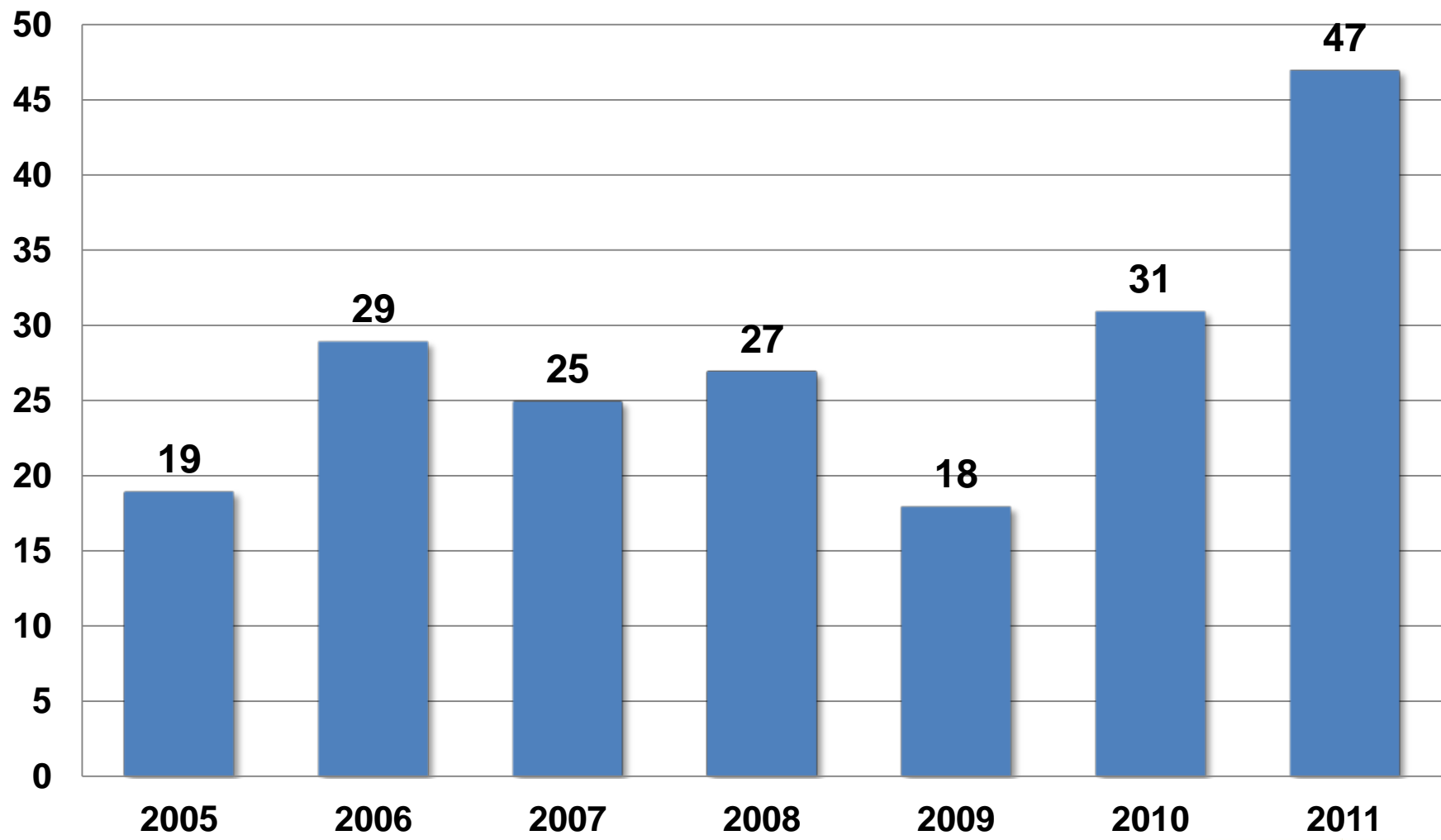


Private Sector Investment Projections Year-to-Date

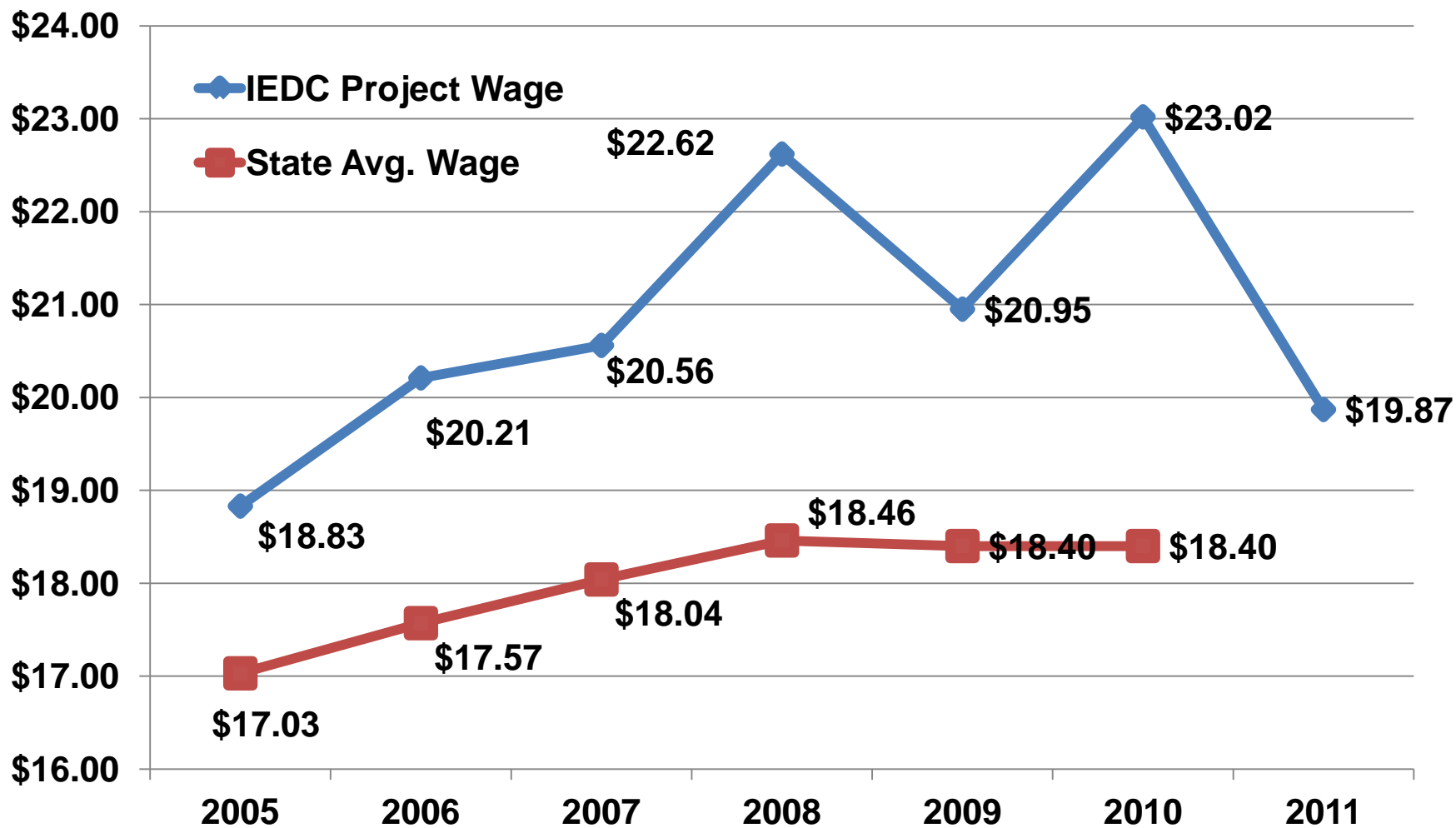


In Millions

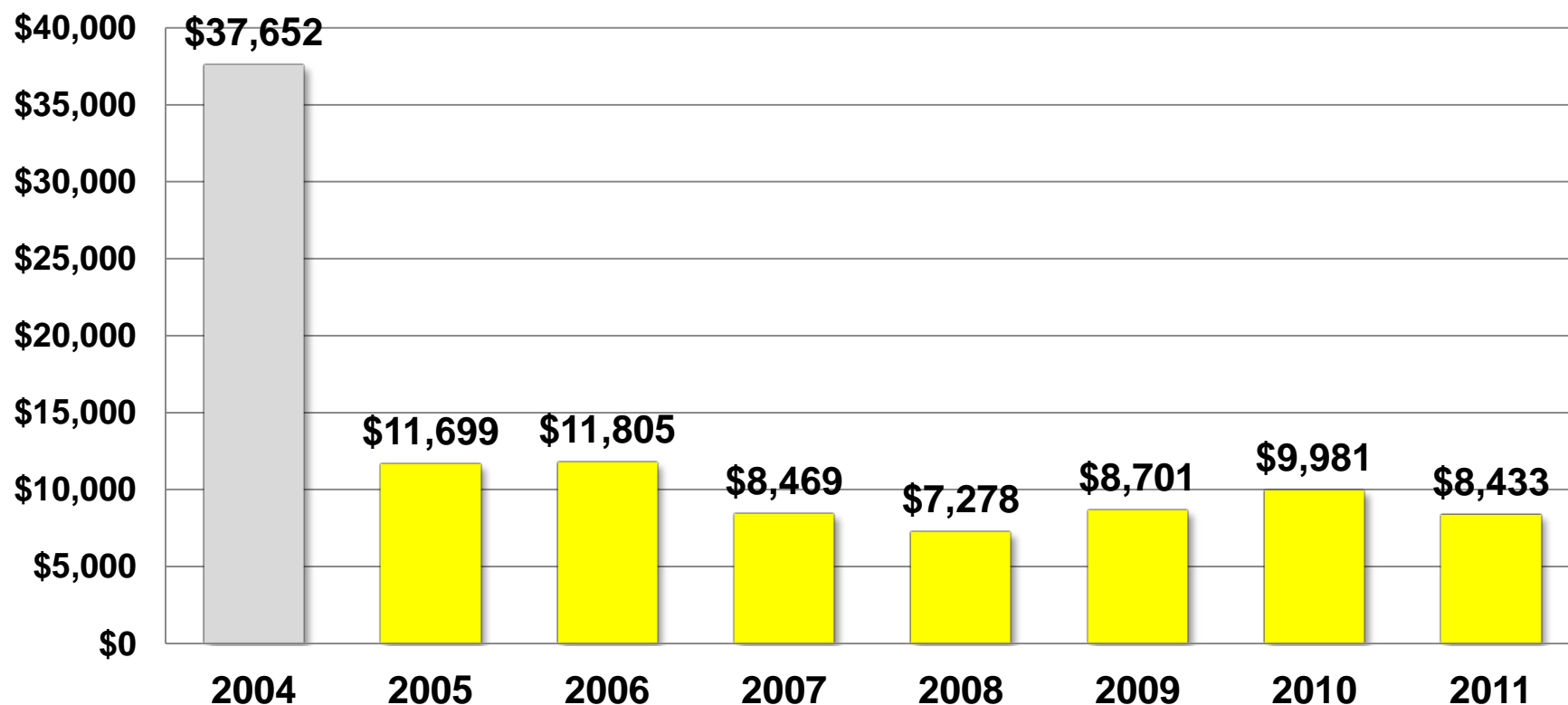
Total Competitive Projects Year-to-Date



Hoosier Average Wage



Low Cost of Incentives Yields Quicker Return



- Direct state incentives include tax credits, training grants and infrastructure assistance
- Tax credits are performance-based linked to IEDC certification of new jobs
- Average time of return on investment: approximately 2 years

As of 2/28/2011

Project Loss Report

Utilimaster Corporation

- Wakarusa truck bed manufacturer proposed joint venture with Isuzu
- Company would provide truck beds to clean diesel trucks produced by Isuzu
- 470 new jobs (\$18.50/hr. avg. wage)
- \$37.0 million capital investment
- Company selected Michigan location for the project

Key Deal Factors

- Utilimaster was acquired by MI-based firm in early 2010
- MI firm had unused manufacturing capacity in state

Project Win Report

Nanshan America Company

- First closed deal from 2010 China trip
 - Governor and Sec. Roob met with company leaders in Shanghai in November
- Company executive attended Purdue University
- Company will establish an aluminum extrusion facility to service industrial clients in the trucking industry
- Company selected a shovel ready site in Lafayette
- 150 new jobs and \$98.5 million capital investment

Key Deal Factors

- Proximity to key customers and suppliers
 - Company will supply parts to Wabash National and Great Dane
 - Shovel ready site supports a competitive production schedule

Illinois Business Recruitment Campaign



Illinois Business Recruitment Campaign

Partnership with Northwest Indiana Forum



↑66% **FEELING Squeezed**
BY TAXES?

NORTHWEST INDIANA:
BETTER for
Business

- Lower taxes
- Business friendly
- Great location



MakeTheMove.org

NORTHWEST INDIANA
FORUM

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Illinois Campaign

- Targeted campaign promoting Indiana's comparative business advantages
- Illinois corporate income tax increases
 - Rate increases from 7.3% to 9.5% (30% increase)
 - 4th highest state corporate income rate in the US
 - 4th highest combined state/local rate in the industrialized world
- Illinois personal income tax increase
 - Rate increases from 3.0% to 5.0% (67% increase)
- Tax rate increases are retroactive and amount to an annual combined tax increase of \$6.5 billion (deficit = **\$13B+**)

Source: Tax Foundation <http://www.taxfoundation.org/publications/show/26965.html>

Illinois Campaign

Illinois Campaign Strategy

- Electronic advertisements running on Crain's Chicago Business website
- 15 billboard advertisements placed in high traffic regional transportation corridors
- Solution Indiana Website
 - Highlights independent reports of Illinois' rising business costs
 - Site has generated more than 4,765 unique web hits to date (2/28/11)
 - www.SolutionIndiana.com

State Cost Comparisons

Business Costs	Indiana	Illinois
<u>Total State Business Taxes</u> / Sum of Corporate State Income Tax, Workers' Compensation	\$132,236	\$230,926
Corporate Income Tax* Due Per Net Taxable Income of \$1,000,000 (2011)	\$85,000	\$95,000
Average Workers' Compensation Annual Premium Based on 100 Employees (2010)	\$47,236	\$135,926

*Pending legislation reduces Indiana Corp Tax Rate from 8.5% to 6.5%



Legislative Update

- Corporate income tax reduction
 - Sen. Brandt Hershman's SB 589 reduces the rate from 8.5% to 6.5%
- Personal property tax exemptions
- Venture capital investment tax credit
- 21st Century Research and Technology Fund

China Jobs Mission Follow-up Activities

- Visit from Dr. Lu Guanqiu, Wanxiang CEO
- Ener1-Wanxiang li-ion battery agreement finalized
- Formation of America China Society of Indiana
- Visit from 15-member delegation from Chinese Ministry of Commerce
- Secured investment decision from Nanshan Co.

India Jobs Mission Recap

- Feb. 20 – 27
- Delegation of 13 academic and business leaders
- Met with more than 30 companies in Mumbai and Hyderabad
- Focused on IT, new energy and life sciences companies
- Receptions hosted by U.S. Consulate General in Mumbai and Hyderabad



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